

PCA Real Estate Advisors, Inc.

August 18, 2008

Members of the CalPERS Investment Policy Subcommittee
California Public Employees' Retirement System
Lincoln Plaza East
400 Q Street, Room E4800
Sacramento, CA 95814

Re: Revised Statement of Investment Policy for International Equity Real Estate

Dear Members of the CalPERS Investment Policy Subcommittee:

PCA Real Estate Advisors, Inc. ("PCA RE") has reviewed CalPERS Staff's Real Estate Policy Agenda item recommending modifications to the Investment Policy for International Equity Real Estate. It is our understanding that these modifications are an interim step in the overall process of updating and revising all of the real estate equity policies.

The policy has been renamed to the "Statement of Investment Policy for Geographic Guidelines for Real Estate Investments ("Policy"). The intent of this name change is to reflect the fact that CalPERS is pursuing a global real estate investment strategy. The purpose of the revised Policy is to provide clear diversification definitions and parameters for the various global markets as investments are made across the various risk classifications outlined in the approved Real Estate Strategic Plan. In addition, the revised Policy incorporates guidelines related to CalPERS' Emerging Equity Markets Principles and the United Nations Principles for Responsible Investment.

Within the Policy, the definitions for the various markets, including Developed, Emerging and Frontier, are based on those used in the FTSE Global Equity Index Series. By way of background, the FTSE Group is an independent company jointly owned by the Financials Time and the London Stock Exchange. The definitions are used in the other CalPERS asset classes and thus, provides for consistent categorization across the entire CalPERS investment portfolio when determining market exposure.

The proposed allocation ranges are:

Region	Allocation Range
Developed Markets	0 – 100%
US	40 – 90%
nonUS	10 – 60%
Emerging Markets	0 – 20%
Frontier Markets	0 – 5%

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These ranges allow CalPERS to pursue opportunities globally and within all markets, including Emerging and Frontier Markets. As of March 31, 2008, CalPERS' real estate portfolio included approximately 3.7% and .1% in the Emerging and Frontier Markets (see Attachment 1, prepared by CalPERS Staff, of this agenda item). More and more investment opportunities will come available in the emerging market segments as out performance over developed real estate market returns is expected due to higher GDP growth, growing middle classes, urbanization trends and shifts towards manufacturing and service industries. The proposed ranges allow CalPERS the flexibility to pursue the opportunities without creating overexposure in the real estate portfolio. Notwithstanding the expected out performance, it is important to recognize that there is incremental risk in pursuing investments in Emerging and Frontier Markets. Further, the success of which will depend on manager selection and careful asset allocation by country.

PCA RE concurs with the modifications presented in the Policy. I will be available for questions at the August 18th Investment Policy Subcommittee Meeting.

Very truly yours,



Nori Gerardo Lietz
Managing Director

cc: Anne Stausboll, CalPERS
Ted Eliopoulos, CalPERS
Randy Pottle, CalPERS
Bob Eberhardt, CalPERS
Jane Defendahl, CalPERS
Pam Alsterlind, PCA RE